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Research Update:

Controladora Mabe S.A. de C.V. 'BB+' Rating Affirmed; Outlook Remains Stable

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Overview

- Controladora Mabe S.A. de C.V. (Mabe) has shown a gradual improvement of its financial and operating performance. However, we believe that the company still faces challenges to continue improving its operating efficiencies and profitability during the next two years.
- We are affirming our 'BB+' issuer credit rating on Mabe. The outlook remains stable.
- We are also affirming our 'BB+' rating on the company's senior unsecured notes due 2015 and 2019. Our recovery rating on the notes remains unchanged at '4'.
- The stable outlook reflects our expectation that Mabe's financial performance will continue to gradually improve, supported by low single-digit sales growth, the company's efforts to reduce costs, and improved profitability at its operations in Brazil.

Rating Action

On Dec. 5, 2012, Standard & Poor's Ratings Services affirmed its 'BB+' issuer credit rating on Controladora Mabe S.A. de C.V. (Mabe). The outlook remains stable. At the same time, Standard & Poor's affirmed its 'BB+' rating on the company's senior unsecured notes due 2015 and 2019. Our recovery rating on the notes remains unchanged at '4'.

Rationale

The rating actions reflect the gradual improvement in Mabe's financial and operating conditions due to the recovery of its top-line performance, which in turn reflects the improved growth rates in most of its markets; as well as higher pricing, a better product mix, and the turnaround of its operations in Brazil, which have recently posted positive margins in the low single digit. However, we believe that Mabe still faces certain challenges to continue improving its operating efficiencies and profitability.

Our rating on Mabe reflects the company's "significant" financial risk profile, based on its low profitability and cash flow generation, the intense competition from large international companies, as well as its vulnerability to global economic downturns as part of a cyclical industry. The rating also reflects Mabe's "satisfactory" business risk profile, based on its leading position in the home appliance market in Mexico (foreign currency rating BBB/Stable/A-2, local currency rating A-/Stable/A-2) and other countries in

Central America and the Andean region, its well-known portfolio of brands, its product and geographic diversification, and its healthy capital structure. Mabe's joint venture with General Electric Co. (GE; AA+/Stable/A-1+) is a positive rating factor. We assess the company's management and governance as "fair."

During the 12 months ended Sept. 30, 2012, Mabe's revenues and EBITDA increased by 4.6% and 25.7%, respectively. This growth reflects double-digit growth in countries such as Brazil, Argentina, and Venezuela, as well as improvements in the company's exports to the U.S., which partially mitigate the lower growth rates in Mexico and Central America. EBITDA margin was 7.6%, and it has shown a gradual recovery throughout the year, reflecting the company's efforts to reduce fixed costs and expenses and the more stable conditions of the commodity prices compared with 2011.

Mabe's key financial metrics also reflect its improved operating performance. For the 12 months ended Sept. 30, 2012, the company posted total debt to EBITDA and funds from operations (FFO) to total debt of 3.1x and 25.3%, respectively, compared with 3.8x and 19.0% a year earlier. The company posted negative free operating cash flow (FOCF) of $111 million due to higher capital expenditures, primarily due to the expansion of the Saltillo plant, as well as the increase in working capital requirements, which is due to higher credit sales and lower accounts payable from the refinancing of some factoring agreements with suppliers and financial institutions. However, we expect this negative cash flow generation to revert in 2013.

Under our base case scenario for 2013, we anticipate low single-digit revenue growth supported by improved economic conditions in North America; stable performance in Latin America; a gradual improvement of Mabe's EBITDA margins to about 8% and 8.4% by year-end 2012 and 2013, respectively, due to pricing actions, cost savings initiatives, and productivity improvements; and a continued though gradual improvement of the company's operations in Brazil. The company is also implementing initiatives to reduce its financing costs, which, combined with the stabilization of its capital expenditures and working capital needs, should also contribute to stronger cash flow generation in 2013. We expect that the company will report positive FOCF of about $75 million by year-end 2013. We also expect that leverage will improve to 2.8x, and FFO to total debt will stabilize in the 20%-25% range. Our base case scenario also incorporates the company's decision to proceed with the gradual closing of the dryer manufacturing factory in Montreal by year-end 2014. The company will transfer the production of these dryers to Mexico during this period.

Mabe is a Mexican holding company. A group of Mexican investors owns 51.6% of the company and GE owns 48.4% in a partnership that was formed in 1987. Mabe is engaged in the production, sale, and distribution of refrigerators, washers, and gas and electric ranges. It also manufactures refrigerator components and compressors, and washing machine motors. Mabe produces all of the gas ranges, and a significant portion of the electric ranges and refrigerators that GE sells in the U.S. and Canada. The company is geographically diversified among several countries in the Americas, including Canada, the U.S., Mexico, Colombia, Peru, Ecuador, Chile, Argentina, Brazil, and Venezuela.

Liquidity

We assess Mabe's liquidity as "adequate." Our assessment incorporates the following expectations and assumptions:

- The company's sources of liquidity, including cash in hand and FFO, will exceed uses by 1.2x or more during the next 12 months to 18 months.
- The sources minus uses will remain positive, and Mabe will comply with its financial covenants--even if EBITDA declines by 15%. Mabe's credit agreement includes debt acceleration covenants, requiring EBITDA net interest coverage of 2.50x and a maximum net debt to EBITDA of 3.5x.
- The company should be able to pay its debt maturities of $28 million during fourth-quarter 2012 and $91 million in 2013.
- The company has good relationships with banks and a good standing in the global capital markets, evidenced by the completion of the voluntary exchange offer of its $200 million 6.50% senior unsecured notes due 2015 for its 7.875% senior unsecured notes due 2019 in second-quarter 2012. The final exchange was for $130 million, which represented 65.45% of the previously outstanding notes and improved the company's debt maturity schedule.

We assumed liquidity sources of about $327 million in 2013, consisting of cash and FFO. We estimate that the company will use about $247 million during the same period for capital expenditures, working capital needs, debt maturities, and cash dividend distributions. Our base case scenario assumes that no acquisitions will take place during the next two years.

Outlook

The stable outlook reflects our expectation that Mabe's financial performance will continue to gradually improve during the next two years, supported by low single-digit growth in sales, the company's efforts to reduce costs, and improved profitability at its operations in Brazil.

We could lower the rating if global economic conditions worsen, resulting in less demand for the company's products, or if raw material prices increase significantly and negatively affect the company's operating performance. We could also lower the rating if the company's operating results deteriorate, leading to higher leverage, with adjusted debt to EBITDA in excess of 4.0x. We could raise the rating if Mabe's profitability continues to improve, with EBITDA margin of about 9%, which could imply a further improvement in the integration of its Brazilian operations; and if leverage decreases, leading to a total debt to EBITDA of about 2.5x on a sustained basis.

Related Criteria And Research

- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Key Credit Factors: Business And Financial Risks In The Branded Consumer Products Industry, Sept. 10, 2008
- 2008 Corporate Ratings Criteria, April 15, 2008

Ratings List

Ratings Affirmed

Controladora Mabe, S.A. de C.V.	
Corporate Credit Rating	BB+/Stable/--
Senior Unsecured	
US$481 mil 7.875% nts due 10/28/2019	BB+
Recovery Rating	4
US$69 mil 6.50% nts due 12/15/2015	BB+
Recovery Rating	4

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